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The Economic Collapse of the Soviet Union

In the 1970's and 1980's the Soviet Union seemed to be one of the most stable political units in the world. In international politics the Soviet Union was very strong and seemed only to be getting stronger. It was, for example, securing political client states in Africa. The Western powers believed this image was valid. But in the Soviet Union few things were really what they seemed to be.

In 1974 there was a power summit meeting near Vladivostok, U.S.S.R. between President Gerald Ford of the U.S. and Leonid Breznev of the Soviet Union. After the meeting Breznev went to his waiting train. The train however did not depart. The journalist and others who traveling on the train with Breznev were not told the reason for the delay even though the delay extended through the night. The next day they were told that Breznev had suffered a stroke. Breznev's personal physician, Mikhail Kosarev, said the problem was an overdose of his sleeping medication rather than a stroke. The symptoms were similar: slurred speech and muscle weakness. Kosareve said that if effect Breznev was a drug

addict during this period and had merely miscalculated his dosage. It was not uncommon for the top leadership in totalitarian states to be addicted to sleeping potions. Mao and the top leadership of the Communist Party in China had been addicted to sleeping pills by the time of the Long March. Totalitarian leaders have a hard time relaxing and getting to sleep.

There were many economic problems for the Soviet Stalinist system. One very general problem was the lack of incentives for productivity. As anonymous Soviet citizen said

They pretend to pay us and we pretend to work.

The Russian economist, Grigory Yavlinsky, who ultimately became an important advisor to Mikhail Gorbachev, became convinced to the need for reform when he investigated the low productivity in the Soviet mines. He found the miners were not working because they had no incentives to work. Said Yavlinsky

The Soviet system is not working because the workers are not working.

**But
there
were
more**



immediate causes for the collapse. In the middle 1980's about seventy percent of the industrial output of the Soviet Union was going to the military. Oleg Gordievsky, a KGB official who defected to Britain, asserted that at least one third of the total output was going to the military. British intelligence could not believe such a high figure but later Western intelligence sources estimated that it was at least fifty percent. One can only imagine what severe shortages of industrial goods there were for the rest of the economy.

In the U.S. the Reagan Administration increased the budget for the military and presented the possibility that it would implement a Star Wars antiballistic missile system. To maintain a parity with the U.S. under those developments would have required an even larger share of industrial output going to the military. The planners and decision-makers had to face the fact that it was economically impossible for the Soviet Union to increase the share of its output going to the military. The Soviet authorities then ended the arms race and called off the Cold War. When the justification of an external threat was removed there was no reason for the Russian public to toleratestat the totalitarian regime and the political system fell apart.

The agreement between Ford and Breznev led on to the Strategic Arms Limitation Talks (SALT). While Soviet negotiators were talking *detente* with the West in Helsinki, Finland the Soviet military were installing medium range nuclear missiles, the SS20's. Only the inner circle of the military-industrial complex knew about those missiles. The SALT negotiators did not know; even the higher levels of the KGB intelligence staff did not know. The negotiators and the KGB only found out about the SS20's when Western sources publicized their siting. The U.S. and Western Europe reacted to the SS20's by installing Pershing and Cruise missiles in western Europe. The Soviet reacted to those sitings by starting a peace movement in Western Europe to protest the siting of the Pershing and Cruise missiles.

Elena Bonner, a human rights advocate in the Soviet Union and the wife of Andrei Sakharov, characterized the peace movement as a movement of Soviet *Con Artists*. She also characterized the SALT agreements, which the West was proud of, as an agreement in which 300 million people who were living in the Soviet Union and Eastern Europe were handed over forever to totalitarianism. What the West got for the Strategic Arms Limitation was a Soviet agreement to honor a set of human rights measures, the so-called *Third Basket*. From documents that were later found after the fall of the Soviet Union is that the Soviet leaders had no intention of honoring those agreements concerning human rights.

The Soviet leaders concentrated on amassing military power. By 1970 the Soviet Union had achieved parity with the United States in military power. They managed to do this even though their military budget was supposedly on one half or one third of that of the U.S. But achieving parity with the U.S. was not an end to the arms buildup. Soviet leader Andropov suggested that the Soviet Union should strive for parity with the combined forces of the North Atlantic Treaty Organization (NATO) plus China.

Part of the military buildup of the Soviet Union was in tens of thousands of tanks. They had 25 thousand in East Germany alone. They were very pleased and confident with this vast superiority in tanks. This confidence held up until President Jimmy Carter announced that he was considering the development of a neutron bomb. The neutron bomb would produce armor-piercing radiation which would kill the crews of tanks but leave the tanks unharmed. This would have made the tank force of the Soviet Union not only ineffective but a danger since enemies could take over the tanks after the crews had been killed and use them against the Soviet Union. The Soviets organized an international peace campaign against the neutron bomb. It was run by the KGB office near Moscow. It was effective enough to get Jimmy Carter to cancel the development of the neutron bomb only a year after he announced its consideration.

Ronald Reagan was elected president in 1980 and he never believed detente with the Soviet Union increase in budget.

The budget increase for the military came at the expense of investment in the rest of the economy. Nikolai Leonov, a general in the KGB, described the result as follows:

First there was a visible decline in the rate of growth, then its complete stagnation. There was a drawn-out, deepening and almost insurmountable crisis in agriculture. It was a frightening and truly terrifying sign of crisis. It was these factors that were crucial in the transition to *perestroika*.

The Reagan Administration justifiably gets credit for destroying the *Evil Empire*, but the irony of it is that the successful strategy arose as a result of a blunder rather than a rational decision. David Stockman tells us that the dramatic increase in the defense budget arose as a result of a mistake. David Stockman was the head of the Office of Management and the Budget (OMB). The OMB practice in putting together a budget was first to make forecasts of the budget

figures assuming no change in price levels; i.e., no inflation. An estimate was then made of the rate of price increase and the constant price projections would be multiplied by an appropriate factor for inflation. Stockman says that in one year the inflation-adjusted figure for the Defense Department budget was mistakenly reported as the constant price figure. The mistaken figures were released before the mistake was caught. When OMB discovered the mistake the Reagan Administration tried to tell the Pentagon that a correction would have to be made. The Pentagon people said, in effect, "No way! If you adjust that published figure we will tell people that you are cutting the Defense budget."

The political fallout would have been too great so the Reagan Administration sanctioned the acceptance of the published figure and made a second inflation adjustment. This was why there was such a big increase in the Defense budget.

Many scientist doubted that the Star Wars anti-missile system would work. The Soviet strategic planners had to presume that it would work.

Gorbachev's Glasnost and Perestroika

When Mikhail Gorbachev was assured of gaining control of the Communist Party and the government of the Soviet Union he sought out Aleksandr Yakoblev, a specialist in North American affairs, to be one of his closest political advisors. Gorbachev and Yakoblev did not intend to dismantle the communist system. Instead they intended to make it work.

Years after the fall of the Soviet Union, Yakoblev said in an interview

It seemed to us that all we had to do was to remove some prohibitions, some brakes. Free everything up and it would start to work. It would work. There is a good engine there. It

has got a bit old and rusty. It needs oil. Then just press the starter and it will set off down the track. And we went along under this illusion for one and half to two years.

But as soon as we began to make really radical reforms, in foreign policy say, we immediately came up against the resistance of the system, that is to say, the military-industrial complex, the central core of the system. It began to resist.

And that is when we began to understand that if we wanted radical reform we would inevitably come up against the resistance of the system. And that is what happened. And from that moment on people began to say that the system is unreformable and the Party is unreformable. Although there did remain some illusions, some hopes, that it could all be done without major conflicts.

Andrei Grachev, the Deputy Head of the Intelligence Department of the Central Committee, summed up the denouement of the downfall quite cogently:

Gorbachev actually put the sort of final blow to the resistance of the Soviet Union by killing the fear of the people. It was still that this country was governed and kept together, as a structure, as a government structure, by the fear from Stalinist times.

The other thing that was keeping this country together was the invented outside threat. So Gorbachev's foreign policy [which] confirmed to the people that there was no danger from the outside, actually played a bad or a good joke with his country because then it did not have any particular reason to keep the structure of this camp. And then it fell apart.

But there was a more immediate explanation for the collapse of the Soviet Union provided by Yegor Gaidar, who had been acting prime minister of Russia from June of 1992 to December of 1992 and a key figure in the transformation of the Russian economy. In his last work, *Collapse of an Empire: Lessons for Modern Russia*, published in 2007 Gaidar provides a powerful explanation for the collapse of the Soviet Union. Soviet agriculture had stagnated in the 1980's but the demand for grain in the cities was increasing. It was necessary to buy grain in the international market. While the price of petroleum was high it was feasible to finance the purchase of grain from internal sources. When the price of petroleum fell in the late 1980's the Soviet Union needed to borrow the funds from Western banks to purchase the needed grain. This severely restricted the international activities of the Soviet Union. It could not send in Soviet troops to put down the rebellions against communism in Eastern Europe because such an action would have resulted in a refusal of Western sources to lend the money needed. Likewise the attempted *coup d'état* was doomed to failure because the coup leaders would not have been able to borrow the funds needed to stave off starvation in the major cities.

Although Gaidar's book does not delve into the reason for the decline in petroleum prices in the late 1980's there is evidence that this occurred because of a conspiracy between the American Central Intelligence Agency (C.I.A.) the leaders of Saudi Arabia to punish the Soviet Union for its invasion of Afghanistan. Saudi Arabia increased its production of petroleum drastically and consequently the price of petroleum fell.

The supposedly progressive system of socialism actually was a replication of feudalism in that there was an absence of personal freedom of the common people and also in that the core of structure was an elite oriented toward militarism. The common people, the workers, were treated like serfs and slaves: they were given the necessities of food, shelter, clothing, transportation and medical care but little else. This is the same regime that prevailed under slavery.

The development of industry served only to further increase the military power at the command of the Communist Party leadership.

(To be continued.)

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